



Fifty years ago, the big oil-producing nations joined forces to fo

When the oil ministers of four Middle Eastern and one South American country met in Iraq in September 1960 to form the Organization of the Petroleum Exporting Countries, few Americans took notice.

Of course, they had no clue at the time that the creation of an oil cartel, known as OPEC, would prove to be one of the most important economic and political events of the 20th century, with enormous consequences for the United States and the world.

OPEC's ability to control much of the world's oil supply, combined with the ever-rising demand for oil, has played a role, directly or indirectly, in the conflicts in Afghanistan and Iraq; the rise of global terrorism and the 9/11 attacks on the U.S.; the decline of the U.S. auto industry; and even this year's BP oil disaster in the Gulf of Mexico.

"The founding of OPEC was a game changer in terms of how the modern world works," says oil industry expert Phil Verlager.

For a century after petroleum (Latin for "rock oil") became widely used as an energy source, the U.S. and Europe largely controlled its exploration and distribution. The first commercial oil well was dug in western Pennsylvania in 1859 (see *Timeline*, p. 18), and the great oil fields of Oklahoma, Texas, and California became the most important in the world.

Initially, most oil was refined into kerosene—as a replacement for whale oil—and used in lamps, but then automobiles came along, creating a revolutionary new use for oil. The potential demand for cars, and the gasoline that powers them, became clear in the 1920s when Henry Ford's 1925 Model T spawned a mass market for cars by putting them within reach of America's growing middle class.

After World War II ended in 1945, rising prosperity in America and Europe increased the demand for oil as never before.

Indeed, the U.S. enjoyed an economic boom that changed the way Americans lived. The sprawling suburbs with rows upon rows of single-family homes and two-car garages

and thousands of miles of new highways were all built on the premise of an endless supply of cheap gas. Detroit cooperated pumping out bigger and bigger cars with thirstier and thirstier engines to satisfy the desire for mobility and consumerism that embodied the American Dream.

Less obviously, over the years scientists coaxed dozens of new substances from oil that many products the modern world was coming to depend on included oil or its derivatives as components: paints, insecticides, fabrics, inks, even soap and hair conditioners—of course, most commonplace of all, virtually anything made of plastic, from toys to pho

The Seven Sisters

It was in this now oil-dependent world that OPEC's founding countries—Saudi Arabia, Iran, Iraq, Kuwait, and Venezuela met 50 years ago to try to gain some control over the price of crude oil (oil that's just extracted from the ground but not refined into gasoline or other products)



OPEC oil meet in the Arab Emirat in 1978 (left, OPEC does the price you pay at the p

OPEC, and the world hasn't been the same since

BY LAURENCE M. PAUL

keep more of the revenue for themselves.

Until then, the oil industry had been dominated by seven big companies—four American, three European—some with names that still echo today: Standard Oil, Texaco, Royal Dutch Shell. The “Seven Sisters,” as they were known, had been in the oil business a long time and were shrewd operators.

The first oil discovery in the Middle East—which has proved to have Earth’s greatest oil riches—was made by the British in Persia (now Iran) in 1908. Saudi Arabia, today the world’s top oil producer, was a poor desert kingdom when Standard Oil of California found oil there in 1938.

Many of the oil nations had little money and even less knowledge of the world. Their governments had granted rights to the Seven Sisters to drill for oil in return for payments that could be reduced at the whim of the oil companies.

The oil-producing nations did have one tool, however. They could take control over how much oil was taken across their borders. And with this tool, they devised a strategy

based on the economic principle of supply and demand: If there’s more demand for a product than there is a supply, prices will rise.

In the 1960s, by agreeing among themselves to limit how much oil could be taken out of the ground, the OPEC nations were able to prevent prices from falling. But they weren’t yet able to push prices higher.

The turning point came in 1973, when war erupted in the Middle East. Egypt and Syria attacked Israel on Yom Kippur, the holiest day in the Jewish calendar. The Israelis ultimately repelled the invasions, but because the U.S. and some other countries had supported Israel, the Arab members of OPEC cut off their oil and simultaneously imposed a hefty price increase.

In what became known as the first oil shock, oil prices quadrupled—leading to gas shortages, long lines at the pump, and rationing in the U.S. and Europe. (In some places in the U.S., drivers with license plates ending in an odd number were allowed to buy gas only on odd-number days, and those with even numbers, on even-number days.)

The 1979 Iranian Revolution, which turned Iran into an Islamic theocracy, led to another oil shock—a disruption of oil exports from Iran and new gas rationing and lines in the U.S. also led to the takeover of the U.S. embassy in Tehran by Iranian students and a 444-day hostage crisis that introduced Americans to radical Islam and terms like Ayatollah and Mullah.

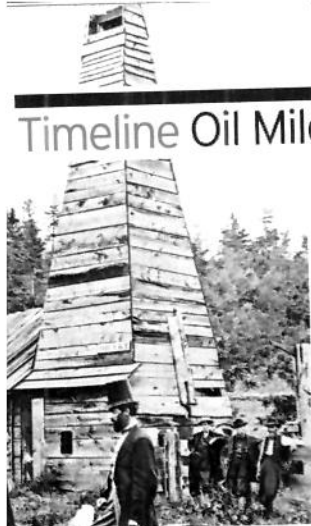
The Iranian Revolution

Gasoline in America, which had cost about 35 cents a gallon before the 1973 embargo, had risen to an amazing 86 cents by the second crisis. Eighty-six cents a gallon sounds like a bargain today with gas around \$3 a gallon, but to those used to buying gas in the 20-to-35-cent range, it was astonishing.

Both oil shocks hit the U.S. economy hard and the auto industry in particular. As gas prices rose, the Big Three—GM, Ford, and Chrysler—weren’t nimble enough to adjust

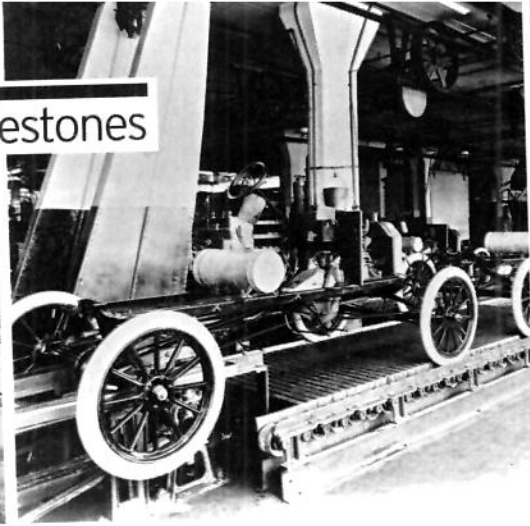
Laurence M. Paul is the former head of The New York Times News Services.

Timeline Oil Milestones



1859

Edwin Drake (right, foreground) in front of the oil well in Pennsylvania that started it all



1925

After the electric light renders oil lamps obsolete, Henry Ford's Model T, the first mass-produced car, creates a whole new market for oil.



1945

President Franklin D. Roosevelt (right) meets with the Saudi King during World War II to discuss the importance of Saudi oil to the West.

1960

Saudi Arabia, Iran, Iraq, Kuwait, and Venezuela form OPEC to control the supply and price of oil



consumer demand for more energy-efficient cars, and Detroit's slide began. Suddenly, highways were filled with Toyotas, Hondas, and Nissans from Japan that not only used less gas, but were also well built and fun to drive.

A gas-saving highway speed limit of 55 miles per hour was set nationwide by Congress in 1974—a standard that's still in force on many roads. Energy conservation became a national cause, and with it began a search for alternatives—nuclear, wind, tidal, geothermal—that continues today.

By the 1980s, the 12 OPEC nations revealed in their power. They overpowered the

Seven Sisters by negotiating higher prices for their oil, or simply seizing their operations. With that power Middle Eastern "oil sheiks" became fabulously wealthy, while their neighbors without oil stayed mired in poverty.

But even the Arab countries with oil discovered a downside, as oil wealth created fractures in their social and economic fabric, especially in Saudi Arabia. Resentment of the ruling classes and their partners in the developed world grew into hatreds that spawned the growth of Islamic terrorist groups like Al Qaeda and attacks like 9/11 on the U.S. and the West.

The U.S. responded to the 9/11 attacks invading Afghanistan and ousting the Taliban which had harbored Osama bin Laden, Qaeda's leader; and two years later by invading Iraq, which President George W. Bush accused of aiding bin Laden and harboring weapon mass destruction. (Both claims proved false) America brought home its last combat troops from Iraq in August, but the war in Afghanistan continues after almost a decade.

The sad irony of this is that the mosques Islamic schools (called madrassas) that train young men in Muslim countries to hate "infidels" in the West are often paid for by the U.S. government with the very oil money that pours in from the U.S. and other Western countries.

The New York Times noted the downside of America's dependence on foreign oil in an editorial that still holds true today: "Oil prices that flow to Saudi Arabia and other Middle Eastern countries finance both terrorism and the spread of dangerously fanatical forms of Islam. The burning of fossil fuels creates greenhouse [gas] emissions that provoke climate change. All the while, oil dependency increases the likelihood of further military entanglements and threatens the economy with inflation, interest rates, and risky foreign indebtedness."

As for OPEC, it became a victim of its success. To regain some control of their tiny, big oil companies expanded their exploration efforts outside the Middle East, first



1979
 13 years after the Arab oil embargo, Iranian Revolution leads to a temporary halt in Iranian oil exports—and more price hikes in the U.S.

2001
 Al Qaeda attacks the U.S. on 9/11. Fifteen of the 19 hijackers are from Saudi Arabia, where oil revenues have been linked to terrorist funding.

2008
 Increased demand for oil from developing nations like China and India drives up oil prices, temporarily sending gas past \$4 per gallon in the U.S.

2010
 This summer's oil spill in the Gulf of Mexico illustrates the risks of drilling for oil in more difficult environments.

in difficult and unlikely places, such as the Arctic or deep under the Gulf of Mexico. Often the new oil came with environmental costs. The catastrophic eruption of millions of barrels of crude into the Gulf this summer—the worst marine oil pollution disaster in history—the most notable example. But overall, the search for new oil has increased the supply and reduced OPEC's influence. Today, OPEC consists of the original five nations, plus Qatar (1961), Libya (1962), United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), and Angola (2007).

It's unlikely OPEC could threaten the world with a cutoff today. Too many other players, like Russia and Brazil, are now in the oil game, and other non-OPEC countries like Mexico, Canada, and China all make major contributions, as does the U.S.

This is not to say OPEC is unimportant. Two-thirds of the known oil in the world is under OPEC countries; a third of that is under Saudi Arabia. OPEC meetings are watched not only by the oil world, but by Wall Street and Washington as well: As we've seen in recent years, oil price rises have a major impact on the

U.S. economy. An increase of even a few cents a gallon at the pump means that Americans have to spend several billion dollars more to fill their tanks, which leaves them several billion dollars less to spend at the mall.

Alternative Energy

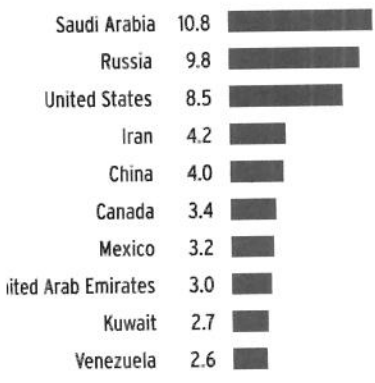
President Obama has said he wants to reduce U.S. reliance on oil and curtail the nation's carbon emissions, which also contribute to global climate change. An energy bill backed by the White House that includes incentives for solar, wind, and other types of "clean energy" as well as caps on emissions has passed the House of Representatives, but its prospects in the Senate are unclear.

New York Times columnist Thomas L. Friedman has argued that the U.S. must begin to wean itself from oil—and that doing so, while difficult, would bring the U.S. real benefits.

Capping our greenhouse gas emissions and pursuing alternative energies would, he says, "strengthen our dollar by keeping more at home; clean up our air; take away money from the people who finance the mosques and madrassas that keep many Muslim youths backward, angry, and anti-American; and stimulate a whole new industry—one China is already leapfrogging us on—clean-tech."

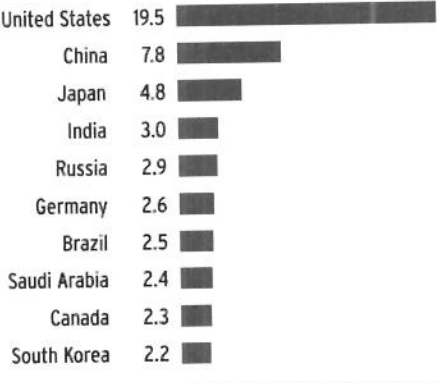
"Nothing," Friedman adds, "would improve our economic and national security more."●

Top Oil Producers (millions of barrels per day)



SOURCE: ENERGY INFORMATION ADMINISTRATION; 2008 FIGURES

Top Oil Consumers (millions of barrels per day)



SOURCE: ENERGY INFORMATION ADMINISTRATION; 2008 FIGURES